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Peck, George Lyman

Remarks of
George L. Peck...

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Remarks of George L. Peck, vice-president
Pennsylvania lines, in presenting the case of the
railroads of Ohio for increased passenger rates
before the Committee of Ohio legislature, March
16, 1915.

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Box 29

REMARKS

of

GEORGE L. PECK

Vice-President Pennsylvania Lines

In Presenting the case of the Railroads of Ohio
for Increased Passenger Rates before the
Committee of Ohio Legislature
March 16, 1915.

Mr. 28, 1916. B. B.

Mr. Chairman and Gentlemen of the Public Utilities Committee of the House of Representatives:

The condition of the railroads of this country has been described as desperate. However much the war in Europe and the consequent depression in business have added to their difficulties, the constantly increasing burdens placed upon them in the past few years had already brought them to a position where relief was necessary long before the war broke out. This fact justifies the earnest efforts that are being made to remedy a situation which has been only intensified by current conditions. It was a knowledge of these facts, of the trend of events, and the nearer approach to the point where it would be impossible for them to continue profitable operation and maintain their credit, that prompted the movement of 1910 for an adjustment of rates. The application then made was denied. Again in 1913, confronted by the necessity of meeting enormous wage increases awarded under arbitration, and alarmed by the enactment of adverse and costly legislation such as extra crew laws, the railway managers again appealed to the Commissions for some measure of relief. It was plain to them, as it must now be to all, that a railroad like any other business cannot continue to sell its product at stationary or decreasing rates in the face of constantly rising costs.

In considering any figures which may be introduced, it should be borne in mind that the latest available annual reports for these railroads are those for the year ended June 30, 1914, at which date the war was unthought of, and that they do not therefore reflect the conditions brought about by the war.

After one of the most exhaustive examinations ever undertaken in a rate case, one which involved hearings extending over a period of more than twelve months and the preparation and consideration of bales of statistics and special studies at great cost to the railroads and the government, the Interstate Commerce Commission, in its decision of July 29, 1914, found among other things as follows: "Upon the facts set

forth, we are of the opinion that the net operating income of the railroads in Official Classification territory* taken as a whole is smaller than is demanded in both the interest of the general public and the railroads." Notwithstanding this, the Commission in this opinion denied the application of the carriers for a general increase in freight rates, but permitted the five percent increase to become effective in Central Freight Association territory, except upon certain commodities which constitute a large part of the total movement of freight.

The Commission made a number of suggestions of ways and means of increasing revenues. Among other recommendations which the Commission offered for changes in practice in order to produce the revenues which it found the railroads needed was one that passenger rates should be raised, because it was evident that the increases in operating costs were greater in that branch of the service than in the freight service. The Commission said:

"The need of additional revenues is greater in Central Freight Association territory, and existing statutes in Ohio, Indiana, Illinois and Michigan, may be obstacles to the raising of passenger fares in those states. But we are confident that if these statutory fares are clearly shown to be unduly burdensome to the carriers, the people of those great states will cheerfully acquiesce, as the people of New England have done, in reasonable increases, and that the necessary legislative authority will be promptly given. The traveling public is giving expression to its demands for better service, better accommodations, and for the adoption by carriers of all the devices that make for safety. A public that demands such a service can not reasonably object to the payment of a reasonable compensation therefor."

Later, the "5% rate case" was reopened and the full effect of the wage increases and other factors being reflected in operating expenses for the year ending June 30, 1914, and the effect upon railway credit of the conditions in Europe and this country being apparent, the Commission approved the five percent advance in freight rates for all of the official classification territory, exempting, however, rail and lake rates and coal, coke and iron ore. These commodities constitute a large portion of the total tonnage of the carriers, and the effect of the exemption is that the real increase is estimated not to exceed $3\frac{1}{2}\%$ of the freight revenue.

* Official Classification territory may be described roughly as that part of the United States East of Chicago and the Mississippi River, and North of the Ohio and Potomac Rivers. Central Freight Association territory comprises Ohio, Indiana, and about two-thirds of Illinois and the lower peninsula of Michigan.

Since the first decision (rendered July 29th) the railroads have attempted to carry out many of the reforms suggested by the Commission, but have met with many difficulties. As was pointed out by the Commission, the carriers have been confronted with laws relating to passenger rates in this state and the neighboring states of the West. These rates not only provide lower revenues than are compensatory for the passenger service, but by reason of their existence, a revision of interstate rates has been made difficult and annoying, both to the railroads and their patrons.

Few realize the extent to which changed conditions have affected the railroads of the country. During the past fifteen years, there has been a steady rise in wages and in the prices of most commodities, with no corresponding increase in freight or passenger rates. The effort of the wage earner to adjust himself to changed conditions in order that he might maintain a given standard of living has led him to make frequent demands upon his employer for increased wages, so that on the average, wages of railroad employees generally since 1898 have increased about 40%. Transportation consists largely of personal services and the considerations which were urged as reasons for the granting of these wage increases were also personal in nature, affecting the economic welfare of a large proportion of the people in these states. But the fact is sometimes lost sight of that when the earnings of the employees are adjusted to meet new conditions the earnings of the corporation, upon which the employee is dependent for continued and useful employment, must also be adjusted.

There has been no increase in rates corresponding with the increase in wages and the carriers have had to meet this large increase as best they could through greater efficiency and by the introduction of better machinery. Better machinery, however, involves the outlay of immense sums of money, and it should not be lost sight of that the railroad problem today, from an investment viewpoint, is entirely different from the situation ten or fifteen years ago. Since 1903, eighteen of the large roads operating in this state have increased their investment nearly 38.8% without a corresponding increase in mileage, and this large investment is represented in better tracks, better equipment and better facilities generally.

The growth in cost of operation is strikingly illustrated in the following table, which shows the part of each dollar of operating revenue absorbed by operating expenses and taxes. The figures are for eighteen roads, making up 96% of the total steam lines in Ohio.

I will not read all of these statistical tables, but there are two or three to which I want to draw your particular attention.

Before doing this, it might be helpful if I should explain the present status of this question of allocating the proper portion of expense to the passenger service.

I have recently been acting as the Chairman of a Committee appointed by the railroads to confer with the Interstate Commerce Commission on the question of adopting some uniform rule for this purpose.

The question has been a live one ever since the first attempts were made to determine the reasonableness of a rate.

The railroad people have always contended that it was impossible to devise any uniform rule that would fit all the varying conditions and that the information could not properly be used for the purpose of fixing rates in any event. Nevertheless, the Commission has been insistent and the Courts have always desired this information. Also the railroads themselves have frequently compiled it for their own information and it seems to go without saying that in the study of such a complex problem all possible methods of bringing out the facts should be resorted to.

This policy has now been adopted and arrangements are being made for the adoption generally by the railroads of the best plan that can be devised. It has been agreed, however, by both the railroad representatives and those of the government that it is impossible to provide any single formulae that will apply to all roads and to all conditions, but that each particular case must be considered on its own merits, and even then it is not safe to use the statistics for the purpose of determining action on rates.

As one of the Government statisticians put it, "They are of some value for the purpose of evoking a kind of statistical consciousness." And there is no doubt of the fact that statistics may be used for such a purpose, especially when fortified by long experience with the facts and operations which the statistics represent.

The statistics which we now present are prepared on the best information available and for all practical purposes conform to the plan agreed upon by the railroads and the Government as the best that can be devised. They are the result of the joint efforts of the best statisticians of the country, both railroad and Government. It should be explained in this connection that while it is difficult to arrive at a proper division of the passenger expenses from the freight, it is even more difficult to divide the state from the interstate, whether it be earnings or expenses.

In this case we have followed the practice of your own Commission. If it is not right, it is the best method that any one has been able to suggest and turning now to the table on page 7, we find that while in the year 1894 it cost but 68.08 cents to produce a dollar of passenger revenue, the cost has gradually risen until in 1914 it cost \$1.19, or a loss of 19 cents on every dollar's worth of business handled.

I would now like to call your attention particularly to the table which follows page 7. This shows that during each year from 1894 to 1904 the passenger business of Ohio roads showed a profit, while from 1905 to 1914 it showed a loss, year by year, with the single exception of 1909, until in the year 1914 the total loss amounted to \$7,512,264.

The cost figures here used cover only operating expenses and taxes and the true results are therefore much worse than the table indicates.

I have used the word "profit" to indicate excess of revenue over expenses and taxes.

Gentlemen, we are in the hands of the people. The people increased our expenses, through legislation and arbitration by their duly authorized representatives. We protested at the time and the public was given every opportunity to know the facts. We assured them that these increased burdens could not be borne without increasing revenues.

At first the people seemed loath to believe this. They urged further economies which were adopted and now the roads can present a clean sheet. You may say that Mr. Brandeis cleaned it for them, but the net results show that there was rather slim picking in that direction.

I said that the railroads could show a clean sheet. I should have said that the railroad managements could show a clean sheet, but the railroads themselves unfortunately are burdened with many wasteful practices, forced upon them by the people against their protest, such as full crew laws and similar measures, passed in the alleged interest of safety.

Gentlemen, we are all for "safety first," but much of the legislation passed on that score will not bear scrutiny. But however that may be, the legislation has been passed and we are now appealing to the people to relieve us.

But to return to the question of revenues. Finally, the Federal authorities decided that we had made our case for increased rates. But they gave us about half what we asked for and told us that we should come to you for further assistance. They said that the passenger rates were proportionately too low and the figures we are now submitting certainly seem to bear out their contention.

So now we are here at the behest of the representatives of the people, obeying their mandate, and this question of passenger fares in the State of Ohio, instead of being an unimportant local issue, has become the pivot on which this whole great railroad problem has centered. If we fail here, where shall we turn?

The situation of the roads is desperate. This statement may seem extravagant, but let me cite you one case:

The Pennsylvania Lines West of Pittsburgh in the month of January, came \$700,000 short of earning their bond interest.

To be sure, many roads at times fail to earn their fixed charges during the winter months, but last year was a bad year and in the same month we fell \$70,000 short.

This year if we had had the full effect of all proposed increases, both freight and passenger, we would still have come short of earning our fixed charges by half a million dollars. This is the record of the first month of the new year. Railroad men have been criticized for making scare head statements, but gentlemen, we cannot blink the facts.

There are no secrets on the railroads today. These facts are all reported to the Government and published in the papers every day. So I repeat, the situation of the roads is desperate.

We must have more revenue, or we must retrench in some direction. The condition of the railroads is reacting on the prosperity of the country as a whole.

Is it consistent for one set of the peoples' representatives to be working at cross purposes with another on the same subject and one in which all the people are vitally concerned?

Our dual form of government certainly complicates the solution of the railroad problem, but I am not one of those who want to see it changed. I believe it was Divinely ordained to wake the people up and make them co-operate, and Gentlemen, if we are ever to solve this problem, it must be by co-operation. State and nation, employer and employe must co-operate to the common end.

Gentlemen, this burden and this responsibility must fall somewhere. We don't want it to fall on the employes if it can be helped. It is certain to fall upon the shippers and all who use the railroads—for already the enterprise of the roads has been paralyzed so that they are not providing facilities to meet the growth of traffic as they have always found it necessary to do in the past, and when prosperity does return it will find them unprepared.

I have told you that based on the best statistics of the best statisticians of the country, both railroad and government, the passenger fares of Ohio are too low. The Interstate Commerce Commission has told you after fullest investigation that they are too low. The Supreme Court has just told you that they are illegally low. Ohio is my native state. I know its people and I know that they do not want to do an illegal or an unjust thing.

The average cost of producing one dollar of passenger revenue has risen from 68.08 cents in 1894 to 119.18 cents in 1914, and in neither case does this take any account of capitalization or return on investment.

The record by years and periods is as follows:

In 1894 it cost to produce \$1.00 of passenger revenue	68.08c
1895 " " " 1.00 " "	80.83c
1896 " " " 1.00 " "	83.09c
1897 " " " 1.00 " "	84.31c
1898 " " " 1.00 " "	90.19c
1899 " " " 1.00 " "	87.05c

Average for six years.....81.94c

In 1900 it cost to produce \$1.00 of passenger revenue	91.51c
1901 " " " 1.00 " "	86.83c
1902 " " " 1.00 " "	91.09c
1903 " " " 1.00 " "	97.43c
1904 " " " 1.00 " "	98.10c
1905 " " " 1.00 " "	100.81c

Average for six years.....95.24c

In 1906 it cost to produce \$1.00 of passenger revenue 104.72c

In 1907 it cost to produce \$1.00 of passenger revenue	110.17c
In 1908 " " " 1.00 " "	100.74c
1909 " " " 1.00 " "	97.06c
1910 " " " 1.00 " "	101.49c
1911 " " " 1.00 " "	102.27c
1912 " " " 1.00 " "	106.26c

Average for six years.....103.03c

In 1913 it cost to produce \$1.00 of passenger revenue	118.44c
1914 " " " 1.00 " "	119.18c

EXHIBIT "A."

Statement showing the Passenger, Mail, Express, Miscellaneous and Total Passenger Train Earnings of Railways in the State of Ohio, as shown by the reports of the Commissioner of Railroads and Telegraph, Railroad Commission of Ohio, or Public Utilities Commission of Ohio; the Expenses of Conducting the Passenger Train Service, based on 30% of the Gross Operating Expenses and the Net Gain or Loss, for Certain Six Year Periods.

YEAR ENDED JUNE 30th	PASSENGER EARNINGS	MAIL EARNINGS	EXPRESS EARNINGS	OTHER	TOTAL PASSENGER TRAIN EARNINGS	PASSENGER EXPENSES AND TAXES 30%	GAIN	LOSS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1894	\$16,444,251	\$1,863,979	\$1,268,792	\$275,072	\$19,852,094	\$13,515,913	\$6,336,181	
1895	14,287,696	1,957,669	1,447,150	312,952	18,005,467	14,553,214	3,452,253	
1896	14,853,585	1,986,435	1,498,598	327,447	18,666,065	15,509,143	3,156,922	
1897	12,727,356	2,192,320	1,385,178	301,349	16,606,203	14,000,836	2,605,367	
1898	13,036,753	2,224,963	1,410,091	331,318	17,003,125	15,335,329	1,667,796	
1899	14,451,045	2,215,109	1,442,288	341,651	18,450,093	16,061,460	2,388,633	
Average 6 years	\$14,300,114	\$2,073,412	\$1,408,683	\$314,965	\$18,097,174	\$14,829,315	\$3,267,859	
Percent of earnings	79.02	11.46	7.78	1.74	100.00	81.94	18.06	
1900	\$16,014,567	\$2,390,059	\$1,523,143	\$374,891	\$20,302,660	\$18,579,785	\$1,722,875	
1901	16,968,296	2,403,184	1,639,641	387,124	21,398,245	19,221,187	2,177,058	
1902	19,021,412	2,433,302	1,817,134	425,782	23,697,630	21,586,203	2,111,427	
1903	20,529,163	2,464,289	1,983,511	479,524	25,456,487	24,803,114	653,373	
1904	21,860,198	2,933,672	2,228,091	498,275	27,520,236	26,997,637	522,599	
1905	22,147,373	2,934,126	2,322,320	504,241	27,908,060	28,131,508		\$ 223,448
Average 6 years	\$19,423,502	\$2,593,105	\$1,918,973	\$444,973	\$24,380,553	\$23,219,906	\$1,160,647	
Percent of earnings	79.67	10.64	7.87	1.82	100.00	95.24	4.76	
1906	\$22,634,825	\$2,950,892	\$2,529,238	\$602,499	\$28,717,454	\$30,073,174		\$1,358,720
Percent of earnings	78.82	10.27	8.81	2.10	100.00	104.72		4.72
1907	\$23,977,422	\$2,948,405	\$2,743,082	\$ 660,273	\$30,329,182	\$33,412,476		\$3,083,294
1908	24,253,258	2,880,428	2,976,751	929,429	31,039,866	31,268,751		228,885
1909	23,602,677	2,872,131	3,004,413	1,028,620	30,507,841	29,610,209	897,632	
1910	26,654,534	2,999,593	3,514,071	1,191,071	34,359,269	34,872,663		513,394
1911	28,758,362	2,974,025	3,757,717	1,353,819	36,843,923	37,681,887		837,964
1912	28,436,506	3,023,675	3,796,581	1,393,521	36,650,283	38,943,915		2,293,632
Average 6 years	\$25,947,127	\$2,949,709	\$3,298,769	\$1,092,789	\$33,288,394	\$34,298,317		\$1,009,923
Percent of earnings	77.95	8.86	9.91	3.28	100.00	103.03		3.03
1913	\$29,725,757	\$2,946,012	\$4,354,423	\$1,403,394	\$38,429,586	\$45,519,744		\$7,090,158
Percent of earnings	77.35	7.67	11.33	3.65	100.00	118.44		18.44
1914	\$30,516,974	\$3,072,524	\$4,184,741	\$1,399,125	\$39,173,364	\$46,685,628		\$7,512,264
Percent of earnings	77.90	7.84	10.68	3.58	100.00	119.18		19.18

All figures for the different years in columns (1), (2), (3), (4), (5), and (6) are taken from the Annual Reports of the Commissioner of Railroads and Telegraph, the Railroad Commission of Ohio, or the Public Utilities Commission of Ohio, as the case may be.

The Expenses assigned to the Passenger Train Traffic, column (7), are a straight 30% of the Gross Operating Expenses and Taxes.

Columns (8) and (9) are the differences between columns (6) and (7).

The railway operations are so susceptible to business and commercial changes, and, by reason of the diversified kinds and large extent of its properties, are peculiarly affected by floods, storms, and other weather conditions, so that in no two years are the conditions wholly comparable, and, therefore, the only way to make comparison of results is to consider these operations by groups of years.

From 1907 to 1912, inclusive, the Operating and Traffic conditions may be considered as fairly normal, and hence comparisons with six year periods prior to 1906 have been made.

The year 1906 is shown separately because the 3 cent maximum passenger rate was in effect until March 10th, and during the balance of the year a 2 cent rate on local passenger traffic was in effect; consequently this year was not properly comparable with any year before or since.

The years 1913 and 1914 are shown separately on account of unusual conditions prevailing by reason of floods, and in 1914 depressed general business.

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